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**FISCAL IMPACT STATEMENT**

**LS 6986**

**BILL NUMBER:** HB 1281

**NOTE PREPARED:** Jan 8, 2010

**BILL AMENDED:**

**SUBJECT:** Alcohol Excise Tax.

**FIRST AUTHOR:** Rep. Klinker

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** *Alcohol Beverage Excise Tax:* The bill increases the beer and hard cider excise tax from \$0.115 to \$0.435 per gallon. It increases the liquor excise tax from \$2.68 to \$5.24 per gallon. It increases the wine tax from \$0.47 to \$1.24 per gallon. Increases the malt excise tax from \$0.05 to \$0.20 per gallon. It reduces the discount to a taxpayer for accurately reporting and timely remitting the alcohol excise taxes from 1.5% to 0.75% of the alcohol excise taxes due. It also makes various changes to the allocation of the alcohol excise taxes.

*Microbrewery Development:* The bill establishes the Microbrewery Development Council for the development, promotion, and education of microbreweries. It establishes the Microbrewery Development Fund and provides that part of the beer excise tax is allocated to the Microbrewery Development Fund.

*Local Economic Development:* The bill establishes the Local Economic Development Fund to assist economic development in cities and towns. It allocates certain alcohol excise taxes to the Local Economic Development Fund. It provides that the money in the Local Economic Development Fund is to be distributed to cities and towns based on population. It also requires the revenue received by a consolidated city to be transferred to the Marion County Capital Improvement Board of Managers.

*Mental Health and Addiction Services:* The bill provides that the Division of Mental Health and Addiction must distribute 10% of the total amount received by the Division of Mental Health from the Addiction Services Fund during the immediately preceding year to provide prevention services for: (1) alcohol abuse or drug abuse; or (2) gambling problems. It provides that 50% of the money that is distributed from the Addiction Services Fund for local programs that provide prevention, intervention, and treatment services may be included in the requirement that 10% of the addiction services fund must be used to provide prevention

services. It establishes the Fetal Alcohol Syndrome Fund to promote programs for the education and research, prevention and control, diagnosis, and treatment of fetal alcohol syndrome. It provides that the Fetal Alcohol Syndrome Fund is administered by the Division of Mental Health and Addiction. It also allocates certain alcohol excise taxes to the Fetal Alcohol Syndrome Fund.

**Effective Date:** July 1, 2010.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* This bill will increase administrative expenditures of the DOR in having to amend tax forms and update computer software to collect the Alcoholic Beverage Excise Tax (ABET) at the increased rates provided in the bill. It is estimated that the DOR will be able to implement the provisions of this bill with its existing level of resources.

*Division of Mental Health and Addiction:* The bill requires the Division to annually distribute an amount equal to at least 10% of the total it received from the Addiction Services Fund in the prior fiscal year to provide prevention services for alcohol abuse, drug abuse, or gambling problems. Revenue to the Addiction Service Fund totaled almost \$8.4 M in FY 2009.

*Microbrewery Market Development:* The bill establishes the Microbrewery Market Development Program, Council, and Fund. The program is to be administered by the Dean of Agriculture at Purdue who is defined as the director of the Program under the bill. The bill authorizes the Program to conduct: (1) market development and research programs; (2) market promotion, education, and public relations programs; and (3) market information services. The bill provides that the Council is comprised of at least seven members but not more than 15 members. Members include the Dean of Agriculture; the chairman of the Horticulture Department at Purdue; the chairman of the Food Science Department at Purdue; the director of the Purdue Tourism and Hospitality Research Center; and other members appointed by the Dean of Agriculture. The bill requires that a majority of the Council members be brewers or processors of beer products. The bill also requires that Council recommend expenditures from the Fund and requires the Dean of Agriculture to consider the Council's recommendations. The Fund is nonreverting and is administered by the Council. Costs of administering the Fund are to be paid from the Fund. The bill provides for the Council to adopt bylaws regarding various functions, including expenses of the Council. The bill prohibits money in the Fund from being used for political or legislative activity. Under the bill, the Fund will receive distributions of revenue from the ABET on the sale of beer beginning in FY 2011 (see *Explanation of State Revenues*).

*Local Economic Development Fund:* The bill establishes this Fund to hold ABET revenue from the sale of beer, liquor, and wine for distribution twice per year to cities and towns. The distributions are to be made based on population. The bill provides for the revenue to be used by cities and towns for economic development purposes. However, the bill requires that all of the money received by a consolidated city must be transferred to the county's capital improvement board of managers. The Fund is nonreverting and is to be administered by the DLGF. Expenses of administering the Fund are to be paid from the Fund. Under the bill, the Fund will receive distributions of ABET revenue beginning in FY 2011 (see *Explanation of State Revenues*).

*Fetal Alcohol Syndrome Fund:* The bill establishes this Fund to promote programs for education and research, prevention and control, diagnosis, and treatment of fetal alcohol syndrome. The Fund is nonreverting and consists of ABET revenue from the sale of beer, liquor, and wine; donations; interest; money transferred from other state funds; and appropriations. The bill requires the Division of Mental Health and Addiction to administer the Fund. Under the bill, distributions of ABET revenue will begin in FY 2011 (see *Explanation of State Revenues*).

**Explanation of State Revenues:** *Impact on ABET Collections:* The bill increases Alcoholic Beverage Excise Tax (ABET) rates, changes tax rate distributions to existing funds, and establishes distributions to three new funds. The tax rate changes are expected to increase ABET collections by approximately \$64.3 in FY 2011 and \$69.8 M in FY 2012. Due to the timing of ABET remittance, the estimate for FY 2011 is based on 11 months of collections. These estimates are based on the Revenue Technical Committee Forecast (December 15, 2009) for the ABET. The revenue impact on funds receiving ABET revenue is summarized in the table below.

Gain (Loss) to Funds Receiving Revenue	FY 2011 (in millions)	FY 2012 (in millions)
General Fund	\$11.60	\$12.45
Post War Construction Fund	0.03	(0.16)
Enforcement & Admin. Fund	2.10	2.28
Addiction Services Fund	25.32	27.67
Pension Relief Fund	(0.06)	(0.10)
Wine Grape Market Dev. Fund	0.45	0.46
Microbrewery Market Dev. Fund*	0.43	0.45
Fetal Alcohol Syndrome Fund*	2.65	2.93
Local Economic Development Fund*	21.76	23.81
<b>TOTAL**</b>	<b>\$64.3</b>	<b>\$69.8</b>
*New funds established by the bill. **Total is rounded.		

The bill increases the ABET on specified beverages and decreases the vendor's discount from 1.5% to 0.75% of the ABET remitted by a wholesaler or other taxpayer. A comparison of the existing ABET rates and the proposed new ABET rates is provided in the table below.

Beverage	Current Tax Rate	New Tax Rate
Beer; Flavored Malt Beverages; Hard Cider	\$0.115	\$0.435
Liquor (and Wine containing 21% alcohol or more)	\$2.68	\$5.24
Wine (containing less than 21% alcohol); Mixed Beverages (containing 15% or less alcohol)	\$0.47	\$1.24
Liquid Malt or Wort	\$0.05	\$0.20

The bill also changes the ABET rate distributions to existing funds, and provides for distributions to three new funds established by the bill (see *Explanation of State Expenditures*). A comparison of the existing and proposed new rate distributions is provided in the table below.

FUND/Beverage	Distribution of Current Tax Rate	Distribution of New Tax Rate	FUND/Beverage	Distribution of Current Tax Rate	Distribution of New Tax Rate
<b>GENERAL FUND</b>			<b>ADDICTION SERVICES FUND</b>		
Beer	\$0.04	\$0.10	Beer	\$0.02	\$0.15
Liquor	\$1.00	\$1.40	Liquor	\$0.06	\$1.10
Wine	\$0.20	\$0.40	Wine	\$0.02	\$0.20
Malt	\$0.05	\$0.20	<b>WINE GRAPE MARKET DEVELOPMENT FUND</b>		
Cider	\$0.115	\$0.435	Wine	\$0.05	\$0.11
<b>POSTWAR CONSTRUCTION FUND</b>			<b>MICROBREWERY MARKET DEV. FUND*</b>		
Beer	\$0.0475	\$0.05	Beer	---	\$0.004
Liquor	\$1.17	\$1.17	<b>FETAL ALCOHOL SYNDROME FUND*</b>		
Wine	\$0.16	\$0.16	Beer	---	\$0.006
<b>ENFORCEMENT &amp; ADMIN. FUND</b>			Liquor	---	\$0.13
Beer	\$0.0075	\$0.015	Wine	---	\$0.10
Liquor	\$0.11	\$0.20	<b>LOCAL ECONOMIC DEVELOPMENT FUND*</b>		
Wine	\$0.04	\$0.10	Beer	---	\$0.11
<b>PENSION RELIEF FUND</b>			Liquor	---	\$0.90
Liquor	\$0.34	\$0.34	Wine	---	\$0.17
*New funds established by the bill.					

*Impact on Sales Tax Collections:* Increasing the ABET rates will cause a decrease in alcohol sales, and therefore there would be a decrease in Sales Tax collections on alcohol. However, any impact on overall sales tax revenue is expected to be minimal.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Under current statute, 50% of the revenue from the ABET rates distributed to the state General Fund must distributed cities and towns based on population. In addition, the bill establishes a new distribution of ABET revenue to cities and towns for economic development purposes. Therefore, the bill is estimated to increase distributions to cities and towns by about \$27.6 M in FY 2011 and \$30.0 M FY 2012.

**State Agencies Affected:** DOR; DLGF; Purdue University; Division of Mental Health and Addiction.

**Local Agencies Affected:** Cities and Towns.

**Information Sources:** Revenue Technical Committee Forecast (December 15, 2009); Auditor's Database,

FY 2009 Revenue Trial Balance.

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